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COUNCILMEMBER
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Memorandum

Date: May 24, 2007

To: Council President and Members of the City Council

From: Carolyn Y. Smith, President *CP*

Subject: **Response to Councilmember Donna Frye's Memorandum Dated May 14, 2007 – Issuance of SEDC's 2007 Tax Allocation Bonds**

This memorandum is in response to the memorandum prepared by Councilmember Donna Frye dated May 14, 2007 regarding the Southeastern Economic Development Corporation's (SEDC) proposed 2007 Tax Allocation Bond (TAB) issue. The following are responses to the specific questions raised in the memorandum with respect to the bond issue:

1. ***Is there a copy of the DPWG signed certificate in the materials provided to the Council?***

Yes, a copy of the DPWG signed certificate was included in the materials provided to the City Council and it is attached as Exhibit B to the memorandum of the City Attorney dated May 9, 2007, to the City Council regarding its Due Diligence and Disclosure Obligations Under Federal Securities Laws.

2. ***When was the last fiscal year that SEDC and the Redevelopment Agency had an audited financial report, and who issued the independent auditor's opinion?***

SEDC's last corporate audited financial report was fiscal years ended June 30, 2006 and 2005. The independent auditors' opinion was issued by Macias Gini & O'Connell LLP (Macias) on August 28, 2006. For the fiscal years ended June 30, 2005 and 2004, the opinion for these reports were issued by Macias and was issued on October 28, 2005.

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Additionally, the audited financial reports for fiscal years ended June 30, 2004 and 2003, as well as for the year ended June 30, 2003, were completed and the independent auditor's opinion was issued by Caporicci & Larson Certified Public Accountants.

The Annual Financial Report for all projects of the Redevelopment Agency of the City of San Diego and the City's financial statements for the fiscal year ended June 30, 2003, were submitted to the City Council for review and filing. It is SEDC's understanding that Macias has been retained to perform an audit and render an opinion on the financial statements of the City are for the fiscal years ended June 30, 2004 through June 30, 2007.

3. ***Given the fact that there are no audited financial reports, what specific procedures were followed to ensure that the financial information is accurate and not misleading?***

The primary disclosure in the Preliminary Official Statement (POS) is based on the Report of the Fiscal Consultant and is not of the type of financial information that is audited by an independent auditor. The following table is a list of the financial information and how it was obtained.

<u>Financial Information</u>	<u>Procedures:</u>
The Amount of Mount Hope Bonds to remain outstanding after issuance of the 2007 Bonds	RBC Dain Rauscher (Managing Underwriter) computed these amounts based on what is expected to be refunded and how much of the principal has been paid off over the years, as indicated in the Preliminary Official Statement for the outstanding bonds.
Table 1- Tax Increment Received to Date	This information is taken from the Statement of Indebtedness filed for the 2006-07 (a requirement under California Redevelopment Law). The Statement of Indebtedness was prepared by the City of San Diego's Auditor's Office.
The Statutory Pass-Through Payment Amounts for Fiscal Year 2006-07	This is estimated by the Fiscal Consultant for the bond issuance based on the Assessed Value in a Redevelopment Project Area and statutory formula.
Pass-Through Agreement payments	This is estimated by the Fiscal Consultant for the bond issuance based on Assessed Value in a Redevelopment Project Area and the formula set forth in the appropriate agreement.
Redevelopment Law Section 33676 Payments	This estimated by the Fiscal Consultant for the bond issuance based on Assessed Values and statutory formula.
Outstanding City Loan Amounts payable from tax increment generated by the Southcrest, Central Imperial and Mount Hope Redevelopment Project Areas	These figures are generated by the City Auditor's office.

4. ***Has the SEDC Board of Directors issued a signed certification attesting that the financial statements are accurate?***

As noted in Response No. 2, the financial statements reporting on the projects of SEDC are part of the City audit. Certification of the corporate financial statements is part of the requirement of the audit of the financial statements for SEDC. The President and the Director of Finance issued a signed statement dated August 31, 2006, confirming that in connection with the audit of the financial statements for SEDC as June 30, 2006 and 2005 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities and governmental fund of SEDC and the respective changes in financial position in conformity with U.S. generally accepted accounting principles.

5. ***What financial internal controls are in place at SEDC, the Redevelopment Agency, and the City of San Diego to ensure that the financial information being provided in the POS can be relied upon?***

At SEDC's corporate level, financial internal controls are in place and have been reviewed and updated annually in compliance with the independent auditors and the City auditor's recommendations/requirements. This information will not be used in connection with the offer and sale of the bonds. Please refer to the Response to Question No. 3 regarding the financial information reflected in the POS.

6. ***What is the total amount of debt SEDC owes to the City of San Diego and what, if any is the repayment schedule? Where is the debt owed to the City disclosed?***

As of June 30, 2006, the total amount of debt SEDC owes to the City of San Diego is \$71,698,973 which consists of \$38,429,442 in principal and \$33,269,531 of interest accrued. This information will be disclosed in the POS under the heading "Subordinate Obligations."

7. ***Much of the information on page 6 of the POS (Certain Investigations Regarding the City) is outdated.***

This information has been updated in the current version of the POS that will be delivered to the Council the week of May 30th.

8. ***There are many blank pages and/or incomplete information on pages throughout the documents provided to the City Council for review. Please provide an explanation for all such pages and also when the missing information will be provided.***

Included in the 1472 for the Approval of the 2007 Tax Allocation Bond issuance which was provided to the City Council (prior to the originally scheduled May 15, 2007 hearing) is an individual Log of Outstanding Items. The logs are inserted in front of each required document to be approved by the Agency and reflect the following information: Document Name; Page No.; Outstanding Items descriptions; Responsible Party; and Expected Availability.

9. ***Was the City Attorney's investigation of SEDC disclosed? What corrective actions has SEDC taken to ensure such problems do not occur in the future? Have the issues pointed out in the report been corrected?***

No. After reviewing and discussing the City Attorney's Report, dated March 8, 2007, disclosure counsel, the city attorney's office, the financial advisor and SEDC determined the investigation and events described therein to be immaterial to potential investors. The investigation found that SEDC failed to comply with the City's affordable housing guidelines in a few instances, and concluded that SEDC and the Redevelopment Agency needed to implement better controls to make sure these situations do not occur in the future. At least one of the suggested controls has already been implemented:

At its October 2006 meeting, the SEDC Board of Directors voted to approve an amendment to the current administrative contract with the San Diego Housing Commission (Commission) to include the monitoring of long term affordability for Agency subsidized developments. This is in addition to SEDC's residential rehabilitation programs, and the first-time homebuyer assistance programs that have been administered by the Commission since 1996.

Nothing in the investigation indicated that SEDC had any significant operational or other issues that would impair its ability to effectively manage the overall development of its project areas. Likewise, SEDC the investigation does not suggest any issues that may materially affect the generation of tax increment in the Redevelopment Project Areas. Since the continuing operation of SEDC and the Agency's ability to collect tax increment in the Redevelopment Project Areas is not at risk, our recommendation is that the description of investigation is immaterial and does not need to be described in the POS.

10. ***The IBA's Report Number 07-51 also indicates that the Redevelopment Agency met with Moody's Ratings recently, and expects to receive a rating by May 18, 2007. The City Council should have that information before voting on this bond issuance.***

On May 8th and 9th, SEDC met with Moody's and Ambac Financial Group, Inc. to provide a tour of the redevelopment areas and discuss the bonding rating and feasibility of insurance. The ratings and insurance information will be provided to the City Council as soon as it is available.

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c: Mayor Jerry Sanders
City Attorney Michael Aguirre
Deputy City Attorney for Disclosure, Mark Blake
CFO/City Auditor (Unofficial), Jay Goldstone